

SUBMISSION BY WARREN GRACE, DIRECTOR GENERAL, INMARSAT

TO

THE HEARING ON INTERNATIONAL SATELLITE TELECOMMUNICATIONS

BY

THE SENATE SUBCOMMITTEE ON COMMUNICATIONS

OF

THE SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

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Introduction

CHAIRMAN BURNS, and members of the Subcommittee, I submit this written testimony on behalf of Inmarsat, the international mobile satellite organization of 84 member countries. I only regret that it was not possible for me to present this statement in person.

Inmarsat believes that this is a very important hearing for the future of international satellite communications, and the role that Inmarsat plays, and expects to play, in the rapidly changing and exciting mobile satellite services segment of the industry.

At the outset, we would like to commend the Chairman for his proposed legislation to modernize U.S. law relating to international satellite communications. We are supportive of the balanced approach you have taken in the bill, and your clear understanding of the multi-lateral nature of the international satellite organizations. We are pleased to say that the privatization plan which we have developed over the past several years, and which is so close to completion, is entirely consistent with the objectives of the bill as described in Section 4.

What is Inmarsat? Let me start by telling you what Inmarsat is not. Inmarsat is not INTELSAT; and it is not Comsat. It has its own organization, its own satellite system, its own challenges, and its own future.

Many members of this Committee know us for the service which was at the heart of our creation -- global maritime distress and safety communications. We also provide telephone and data communications to the world's ocean-going vessels. Our commercial airline communications and navigation services are recognized as the superior such services throughout the world, though you wouldn't know it here in the U.S. because you are not allowed to use them. The rest of the world has for the past ten years. Similarly, you are probably not familiar with our portable satellite telephones which have been used for voice and data communications throughout the

world for more than six years, because their domestic use in the U.S. is prohibited.

Members of the Committee, Inmarsat fully shares your clear desire to have us become a private corporation. We at Inmarsat have made enormous efforts to achieve that objective in recent years. We are very close to success. So close, in fact, as to bring into question whether there is a need for legislation beyond technical and conforming changes to the Satellite Communications Act, at least insofar as Inmarsat privatization is concerned.

Inmarsat's path towards privatization has not been smooth or easy. The process has been very productive, however, and we are now at the threshold of achieving a landmark agreement that fully achieves or exceeds the major objectives, including timetables, in both of the relevant pieces of legislation before the Congress.

MR. CHAIRMAN, it may come as a surprise to the Committee, but Inmarsat is on schedule to privatize on January 1, 1999 -- less than four months from today's hearing. Our plan will provide immediately for new outside investors, an independent board of directors with fiduciary responsibilities, and an IPO within approximately two years of privatization. We will give up all existing privileges and immunities at that time.

The U.S. has been very influential in this process, just as it has been throughout our history. The representatives of your Executive Branch agencies who represent the U.S. government as a Party to Inmarsat, and the U.S. Signatory, Comsat, have been heavily and positively involved in the development of privatization plans for more than five years. Let me review some of Inmarsat's history, and the U.S. role in it.

Maritime Safety, the Origins of Inmarsat, and the U.S. Role

Inmarsat was formed in 1979, largely at the initiative of the International Maritime Organization, to take advantage of emerging satellite communications' technologies for the benefit of the world's maritime industries. The most compelling need was to improve safety at sea. The United States was very important to the establishment of Inmarsat. The three-satellite Marisat system launched by Comsat General in 1976 was the backbone of our first satellite system in 1982.

The results over the past sixteen years have been spectacular. A great many lives have been saved due to the effectiveness of our services, which form an integral part of the Global Maritime Distress and Safety System (GMDSS). They are a core component of Inmarsat's existence.

Major ocean going vessels of the world are equipped with Inmarsat equipment, as are an increasing number of smaller commercial and recreation vessels. The United States Military is our largest single customer, and U.S. companies are among the largest users of our services. The fishing fleets of America's coastal states; the oil tankers of U.S. oil companies; the ships which carry America's grain and other exports to world markets; the oil drilling rigs off America's coasts; and the U.S. Coast Guard are other examples of U.S. maritime customers.

As Inmarsat expanded into aeronautical and land-based services, U.S. companies and government agencies were quick to make use of them. Your military forces have used Inmarsat services extensively in conflict and emergency situations ever since the Gulf War. Your Federal Aviation Administration relies on the enhanced navigation facilities of GPS provided by Inmarsat, and U.S. airlines depend on Inmarsat services outside the U.S. Many other U.S. companies take advantage of Inmarsat's on-land mobile services, especially in remote parts of the world.

I should also mention that U.S. companies have been major suppliers of Inmarsat goods and services -- satellites, launch vehicles, communications systems, and associated services. Companies like Lockheed Martin, Hughes, Honeywell, Boeing/McDonnell Douglas, TRW, Rockwell Collins, Magnavox, and Trimble are just a few of our American contractors.

MR. CHAIRMAN, since Inmarsat is a global services provider, I could give you long lists of customers and suppliers for many of the countries in the world. However, it is fair to say that without the United States, there would be no Inmarsat as we know it today. Inmarsat's 83 other member countries, its customers, its investors, and its employees recognize the contributions the U.S. has made to help Inmarsat become a first-rate global enterprise.

Inmarsat Expansion and the Evolution of the Privatization Process

From Inmarsat's inception, it was clear that commercial services would be needed to generate the financial ability to offer the crucial emergency services, which Inmarsat provides free of charge, much like local telephone companies here in the U.S. offer emergency 911 services. Just as U.S. telephone companies could not survive by providing only 911 services, Inmarsat's commercial viability would depend on other services. As technology and capacity improved, aeronautical and land applications were added to maritime services by amendment to the Inmarsat Convention, which amendments were supported by the United States. Today, Inmarsat has more than 125,000 terminals worldwide at sea, in the air, and on land.

Several years ago, some of Inmarsat's Parties and Signatories, including both the U.S. government and Comsat, began to realize that the intergovernmental structure of Inmarsat needed dramatic reform if the organization was to survive in a competitive market populated by private mobile satellite operators.

As we first began to develop plans for privatizing the organization, there was some resistance. Some of our member countries were not market economies, and many of our Signatories were not private companies. Instead, they were the public telecommunications operators within their home countries. For many of them, at least at the outset, privatization was not seen as an appropriate operating structure for Inmarsat. (Since then, a growing number of these entities have either privatized or begun the process of privatization.)

As you might imagine, developing consensus for changes as fundamental as those under consideration in an organization made up of 84 different countries, and scores of

telecommunications entities, has been extremely difficult. Different economies, different languages, different cultures, different needs, different expectations, and different priorities mix together into a decision-making process which is extraordinarily complex and time-consuming. Indeed, that is why an intergovernmental structure suffers in a competitive world.

For example, our governing agreements require that decisions be made by two different governing bodies -- an Assembly of the Parties and a Council of the Signatories. Furthermore, both bodies require super majorities of two-thirds. The practical effect of this structure is that action can be stymied by resistance from as few as three of our larger members. There is no easy comparison with your Congress, but it is roughly comparable to requiring that all Congressional actions have the support of two-thirds of the members of each House, with the additional problem that California could almost singlehandedly block action by enlisting just two other large states to its point of view.

When we started planning Inmarsat's privatization, we consulted with our members and various outside experts. There were no real precedents for what we were trying to do. Our success was the product of the trust and goodwill that comes from nearly twenty years of working together. That doesn't mean it has been easy. Creativity, common sense, and compromise paved our road to success. The U.S. was a key player in this process.

It is important to realize that virtually everything is now in place. The details have been debated at length and agreements reached. The necessary financial and legal due diligence have been completed. Even the reviews of national competition authorities are close to completion. The result is a product of which we are all very proud.

The new corporate structure should allow Inmarsat to compete -- with no special advantage and no unfair disadvantage -- in the mobile satellite services markets. The structure is highly consistent with all the main objectives of the U.S. Party and Signatory, who have been very influential in its design.

Inmarsat's Proposed Privatization Structure

Inmarsat's primary objectives in approaching privatization were simple: (1) to maintain the global public safety services which the world has come to rely on; (2) to ensure continuity of services to our customers; and (3) to be in a position to compete fairly, on a level playing field, with all other players in the rapidly changing mobile satellite market. The key elements of Inmarsat's privatization plan are the following:

1. The preservation of Inmarsat's GMDSS services.

This is the *sine qua non* of Inmarsat's future operations; the cornerstone of our public service obligations. Our GMDSS services will be protected via a contract with a totally separate, small intergovernmental organization whose sole responsibility will be to ensure that these and Inmarsat's other public service obligations are met.

2. The continuity of service to Inmarsat's customers.

Continuity of service to existing customers not only supports the GMDSS services, but also assures uninterrupted communications services in the short run and greater consumer choice in the long run.

3. An independent board of directors with fiduciary responsibilities.

This arrangement is critically important to attracting new investors, and protecting Inmarsat from an arrangement in which operations and policies are governed by owners free to pursue their own narrow interests.

4. Elimination of all privileges and immunities.

These rights were crucial to the founding and early success of Inmarsat, but they are not appropriate for a competitive enterprise. They will be eliminated upon transition to the privatized structure.

5. Broadened ownership (and dilution of current ownership shares).

- A. Provision is made for the immediate introduction of new investment capital through the identification of strategic investors.

- B. A commitment is made for an early initial public offering (IPO) of stock through public exchanges within approximately two years of privatization.

The Challenges Ahead

Please understand that this structure poses many risks for us, even as we are excited about the opportunities which stand before us. The global marketplace is changing rapidly. One global competitor will begin service with its 66 satellite system later this month. Another global competitor has some of its satellites in place already, and will initiate service next year. Several regional competitors are already providing services in other parts of the world, including some of the more lucrative markets.

Demand may be exploding, but so is capacity. And don't forget that a growing proportion of the major markets around the world are already well served with cellular telephone systems. No one in the mobile satellite market is assured of success. We are all vulnerable.

Inmarsat's privileges and immunities will disappear, though we have always argued that the value of these arrangements was grossly overstated by our competitors. Their complaints fail to acknowledge those aspects of Inmarsat which severely constrain and complicate our ability to operate. In addition to our cumbersome operating structure, we have always been severely restricted in our ability to access the capital markets.

During the period of transition, we are also saddled with some other disadvantages that our competitors do not have. First, we have to convert from our current structure and systems, a process which will require an enormous commitment of staff and financial resources. Second, we have to re-train our staff to adjust to the rapidly changing decision environment of the private sector. Third, we have a long-term commitment to providing an extensive system of emergency distress and safety services worldwide.

Finally, before all this can begin, another crucial step stands immediately before us, and the U.S. plays an important role in it.

The September Assembly and the Crucial Role of the United States

An Extraordinary Assembly of Inmarsat Parties is scheduled for September 23-25. At that meeting, we will be seeking the endorsement of member countries to the rapid implementation of the privatization plan in early 1999. The U.S. government needs to be actively involved in assuring that this meeting is a success.

U.S. representatives at the September Assembly should be permitted to support a position that enables privatization to proceed as rapidly as possible. A failure to act will not only jeopardize Inmarsat's commercial viability, but also put at risk the satellite component of GMDSS. Further delay could also have a negative spillover effect on INTELSAT privatization plans.

Our fear is that a lack of consensus within your government may disrupt this process, and interfere with the pro-competitive objectives that our member governments, including the U.S., have been working so hard to achieve through privatization. We hope that can be avoided. We are literally a few months away from what no one dreamed possible just two years ago, and the U.S. has encouraged other nations every step of the way.

If the U.S. steps back now, privatization could be slowed down in ways that would be highly unfair to Inmarsat, and detrimental to the interests of consumers throughout the world. This would be contrary to the spirit of free enterprise and would create great tension among the other 83 members of Inmarsat, tending to confirm the suspicions of those who believe that the U.S. government talks a good game about competition, but sometimes acts otherwise.

We urge you to do all within your power to help the privatization process move forward without interference at the September Assembly.

We would also ask you to avoid rhetoric or legislation that includes threats of sanctions. Like the United States Congress, Inmarsat member governments, as sovereign nations, do not respond well to unilateral demands. Like you, they respond best when they are approached in the spirit of two-way dialogue, mutual understanding, and a willingness to compromise.

The U.S. has a proud history of using such cooperative techniques to achieve multi-lateral agreement on matters of global interest. The WTO Agreement on Basic Telecommunications Services is just one recent example of the benefits to all parties that can result from open-minded negotiation and mutual respect. We sincerely hope that the U.S. will not abandon these principled and historically productive techniques as it considers the best way to modernize satellite communications policy.

Insofar as the Chairman's bill impacts Inmarsat privatization, it strikes us as consistent with the best tradition of balance and fairness. But even the Chairman's bill would impose some penalties on Inmarsat if a certain timetable is not met. The privatization plan already agreed to will beat that timetable by several years, rendering the provision meaningless. We would request that such unilateral threats of penalties be excluded from your bill. After all, the success of our timetable now rests, more than anywhere else, with the U.S. and its actions at our upcoming meetings.

The legislation under consideration in your House of Representatives is more problematic. It includes a number of provisions which are viewed by Inmarsat members as unfair, unnecessary, and directly contrary to the spirit of free and fair competition. For example, the bill threatens to withdraw unilaterally Inmarsat spectrum and orbital slots, the lifeblood of satellite communications, if certain conditions are not met.

Another provision would prohibit Inmarsat from certain business activities for fifteen years, a period nearly as long as we have been providing services. Since none of us know what the industry will look like even a few years hence, we suggest that the appropriate way to regulate business activities in this industry is to rely on the well-established worldwide framework of competition authorities responsible for overseeing communications practices. Rules should be established in a multi-lateral forum, and everyone must be treated equally.

We urge the Committee to follow the Chairman's lead towards fairness and balance. We can even promise some benefits for the average American once your FCC approves our entry into the U.S. market, and the playing field here is truly level. First of all, Americans will have more choices among service providers, assuring greater service at lower cost. Secondly, Americans on domestic flights will finally have access to the satellite communications system which international travelers agree is the best in the world. Finally, forest rangers, fire fighters, stranded motorists, geologists, hikers, and the many companies operating in remote areas of the United States will be able for the first time to use the portable satellite telephone system that helped save American lives during the Gulf War and other international conflicts.

Mr. Chairman and the Committee, Inmarsat stands ready to work with you in your efforts to assure that the mobile satellite services market is totally open, highly competitive, and governed by equal treatment for all.

For questions or comments regarding this testimony, please contact Allen Moore at Chambers Associates Inc. Tel: 202-371-9770. Fax: 202-371-6601. E-mail: moore@chambersinc.com